



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL

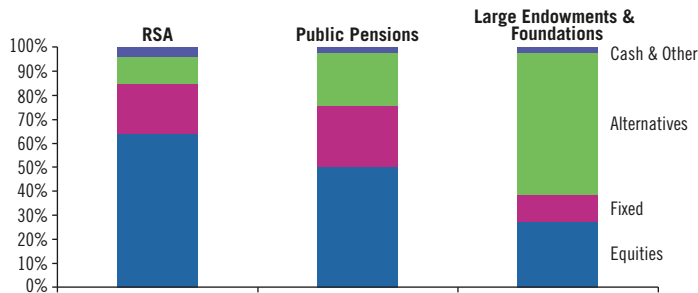


Vol. XXXIX — No. 10

SERVING OVER 335,000 MEMBERS

April 2014

Average Asset Allocation Comparison



Source: RSA, Public Fund Survey and NACUBO

Editor's Note: Most of RSA's Alternatives had a positive impact on Alabama

Can Our Legislators Act?

BY MAC MCARTHUR, ASEA

Can our legislators act? Will our legislators act? Will they start solving the lack of revenue and in turn address state employees' pay? At times, I feel like a broken record. State employees need a COLA. Repeat. We must have new revenues for the General Fund. Repeat. Merit Raises must continue to stay unfrozen. Repeat. But there is one thing I do know, ASEA will continue to repeat these statements and more until the Legislature does act.

During January, we had the opportunity to go around the state and meet with state employees. To no one's surprise, the overwhelming number one issue was the pay crisis facing active and retired state employees. You know the facts, but let me repeat myself again; state employees have not had a COLA since October 1, 2008. During that period of time, inflation has eaten up over 10.4% of our salaries. Combine that with paying 2.2% more in Social Security/payroll taxes, 2.5% more for retirement and more out-of-pocket costs for health insurance and state employees are down over 15%. Many state employees are actually taking home less than in October 2008. At the same time, state employees' workloads have significantly increased. Since January 2011, there are 5,548 fewer state employees – 13.92% less than three years ago. To put it another way, for every 7.1 state employees working in January 2011, one is gone and not replaced.

In Governor Bentley's State of the State address, he called on the Legislature to pass a conditional COLA for state employees of up to 4%. That is to say, the COLA would be paid to the level and if the General Fund budget has revenues available to pay for such a COLA; thus, it is not an absolute appropriation. This is a good step, but this COLA must be funded. . . . ●



America's Infrastructure

BY DAVID G. BRONNER

Recently, it was revealed that snipers took out 17 of 20 large transformers in about twenty minutes at a Silicon Valley PG&E substation last April, requiring 27 days and \$16 million to repair. The California attack on the PG&E substation is considered "the most significant incident of domestic terrorism involving our power grid that has ever occurred," according to the former chairman of the Federal Energy Regulation Commission (FERC).

Another recent FERC analysis concluded only a small number of U.S. substations would need to be knocked out at the same time to cause a near nationwide blackout. That follows a 2009 Energy Department study that points out a large-scale attack would result in prolonged outages because procurement cycles for components range from months to years.

Up until now, authorities had kept the event out of the national media for fear of copycats. The concern is that it was not an incident where people decided to have some good-old-boy fun, but rather a training event in prelude to a larger-scale occurrence. Lots of pre-planning took place, including precision targeting of cooling systems, AK-47 shells lacking finger prints, and cutting underground fiber-optic telecommunications.

In the U.S., there are over 164,000 miles of transmission lines and thousands of substations, including roughly 2,000 very large transformers, each of which is custom made, weighing up to 500,000 pounds and costing millions. Although the locations of substations are public knowledge, it is a closely guarded secret which combination of them would need to be knocked out to cause an extensive blackout. Our country's three-grid systems – Eastern, Western, and Texas – are often located in rural areas, and thus impossible to secure the grid's entire infrastructure.

I failed to encourage my contacts in the Bush and Obama administrations to focus on infrastructure and not spending our treasure on the misdeeds of Wall Street after "our generation's Depression of 2008-09." America must not only fix the power grid, but also repair the failing dams and water systems for a bright future. We need to seriously consider infrastructure investments that put our citizens back to work and strengthen our country in order to compete globally in the future.

Likewise, Alabama's leaders cannot do little or nothing in solving our educational and non-educational problems – such as prisons – without giving our state meaningful revenue increases and showing our citizens how those funds can have a positive effect on the future of Alabama. ●

Economic Impact of the RTJ Golf Trail in Greenville

BY DR. MARK FAGAN; DEPARTMENT HEAD EMERITUS, JACKSONVILLE STATE UNIVERSITY

Cambrian Ridge opened in 1993 as the sixth site on The RTJ Golf Trail. It is located four miles west of I-65 at Greenville, AL (population of 7,492 in 1990 and 8,135 in 2010). The local economy has improved significantly from the increased tourism spending since it opened.

Data from the Alabama Tourism Department showed there was a steady increase from 1995 to 2011 in annual tourism related spending in Butler County. This spending includes money spent by tourists on eating and drinking, transportation, lodging, and related retail. This annual spending for 1995 was \$11,686,242 and for 2011 was \$42,109,848, an increase of \$30,423,606.

Local sales taxes from tourism spending for 1995 were \$350,587 and for 2011 were \$2,316,042, which is an increase of \$1,965,455. State lodging taxes (4%) for Butler County for 1996 were \$59,199 and for 2011 were \$200,154, an increase of \$140,955. Local lodging taxes for 1996 were \$88,798 and for 2011 were \$300,231, an increase of \$211,433. In addition, Greenville collects a \$2.00 room fee per night, which is not included in the above lodging tax collections.

Most of the commercial growth from the increased tourism spending has occurred at Exit 130 on I-65 and is evidenced by an increase in the number of motels and restaurants. There were seven motels in Greenville at the end

of 2013 that were not included with the four motels that were there in 1990. There were 12 restaurants in Greenville at the end of 2013 that were not there in 1990. The number of retail outlets has increased from the indirect impact of the additional tourists and residents. The retail growth has led to increased employment and a subsequent growth in housing.

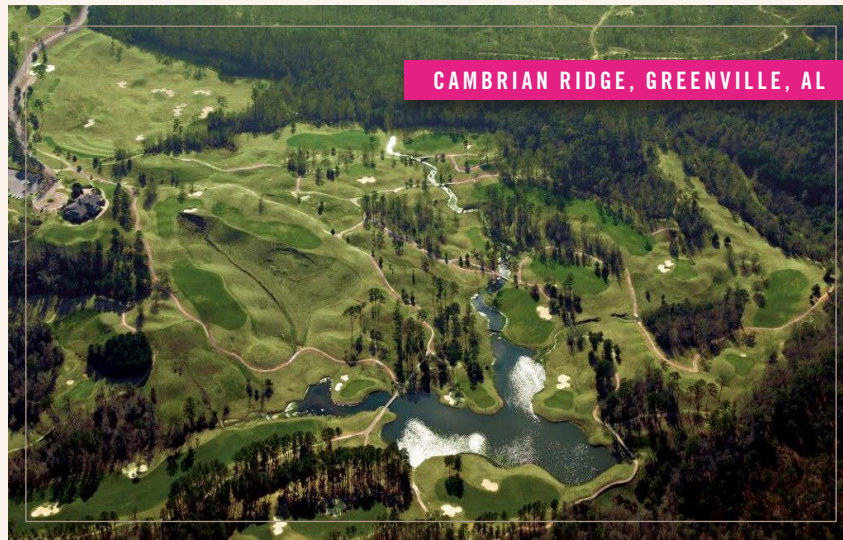
U.S. Census Data was used to deter-

mine the employment growth and housing growth. The median value for housing in 2010 was \$91,400 which was a \$50,600 increase since 1990. There has been approximately \$63,066,000 in housing value added since 1990. The mean household earnings in 2010 was \$44,452 which meant \$30,671,880 in additional earnings since 1990.

The local sales taxes and lodging taxes from tourism spending for 2011 was approximately \$2 million. The state lodging and sales taxes (8%) for 2011 from tourism spending in Greenville was almost \$3.5 million. The local indirect economic impact from tourism spending in 2011 (multiplier of 2) was approximately \$85 million. The indirect economic impact from the increased spending on housing construction since 1990 is approximately \$130 million. Other tax revenue generated from the increased direct

and indirect spending include: income, ad valorem, business, fuel, tobacco, and liquor.

The extra revenue helped Greenville build a new high school which is the largest school in Butler County. It houses grades 9-12 and provides students with college prep and vocational education curriculums along with music, art, and drama programs. A new kindergarten building with a cafeteria was built at the elementary school. ●



CAMBRIAN RIDGE, GREENVILLE, AL

mine the employment growth and housing growth. People employed in 2010 totaled 3,206; an increase of 1,044 since 1990. Those employed in Arts, Recreation, Entertainment, Accommodations, and Food Service totaled 381 in 2010; an increase of 108 people since 2000. Those employed in Finance, Insurance, and Real Estate totaled 116; an increase of 68 people since 2000. These are the two economic sectors most related to the tourism and retirement industries.

The number of housing units between 1990 and 2010 increased by

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NYC's Retirement Funds Pension Complex

SOURCE: *THE ECONOMIST*

New York City's public-school teachers have good reason to be jealous of their colleagues in the Canadian province of Ontario. Whereas returns at the city's \$144 billion system of public pension funds have averaged only 7.6% over the past ten years, the C\$129.5 billion (\$119.8 billion) Ontario Teachers' Pension Plan (OTPP) boasts 9.6%. But chances that New York's funds will soon copy the model up north are about as slim as the *Queen Mary* making a quick U-turn on the Hudson River.

The comparison is unfair: OTPP is an outlier, the Yale of pension funds; the performance of the funds in New York is close to the American average, which stands at 7.5%. But if they could increase their returns by just one percentage point, the city would have \$1.4 billion more to spend every year. The money could be

used to reduce the annual cheque the city writes to its pension funds, which was worth \$8 billion in 2013 – about 11% of the city's budget.

A New York Problem we do not have

Yet lifting returns would require structural reform. New York's 600,000 teachers, police and other municipal employees and pensioners between them belong to five separate pension plans, each of which has its own set of investment policies, consultants and trustees. Whenever the combined fund wants to make a management change, it must get the approval of all five boards, a process that can take five months.

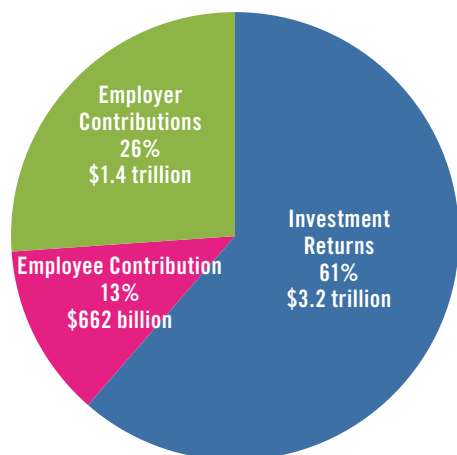
Because New York's funds do not

manage any assets themselves, they paid \$472m to outside managers and consultants last year – about \$269m more than OTPP, which manages about 80% of its assets in-house. And whereas Ontario's fund employs more than 200 investment professionals and pays them competitive salaries, New York's system has only 38, who are paid an average of \$100,000 a year. . . .

Meanwhile, New York City's pension managers continue to struggle with a system established almost a century ago. They would like to invest directly in real estate to diversify their holdings and reduce volatility, but none of the five funds has the expertise to do so. **A former chief investment officer was fond of pointing to a plaque on the building that houses one of the funds. It reads: "Owned by the Retirement Systems of Alabama."** ●

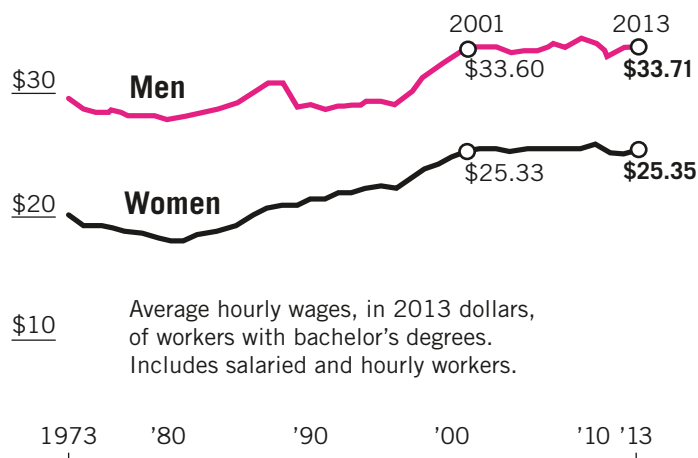
Public Pension Sources of Revenue

1982 – 2011



Source: U.S. Census Bureau

Years of Flat Wages



Source: Economic Policy Institute

Fun Farm Bill Facts

Total cost of 2014 farm bill over 10 years increase in spending compared with previous farm bill in 2008	\$956bn 49%
Share of 2014 farm bill spending which has nothing to do with farming	80%
Amount by which average farm household income exceeds average household income*	25%
Share of subsidies received by largest 10% of farm businesses	75%
Mean annual crop insurance subsidy received by top 1% of policyholders*	\$227,000
Mean annual crop insurance subsidy received by bottom 80% of policyholders*	\$5,000
Number of people receiving food stamps in 2013 increase since 2000	47.6m 177%
Famous recipients of farm subsidies	David Rockefeller, Jimmy Carter, Bruce Springsteen

Source: Environmental Working Group; Department of Agriculture; Cato Institute; The Economist

*2011

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The Battle House,

A Renaissance Hotel – Mobile – \$109

- April 6-13, 17-21, 27-30 • May 1, 7-10, 18, 26-31
- June 1-5, 13-14, 20-21

The Renaissance Riverview Plaza – Mobile – \$99

- April 6-13, 17-21, 27-30 • May 1, 7-10, 18, 26-31
- June 1-5, 13-14, 20-21

Marriott Grand – \$109 plus a 15% resort fee

- April 1-2, 6-10, 15, 20-22, 27-28
- May 4-5, 7-8, 11-15, 26-28 • June 1-2, 12, 18, 29-30

Marriott Grand – RSA Golf Package – \$179

plus a 15% resort fee – Promotional code–R2A

Includes: Deluxe Room, One Round of Golf for Two People.
Call for Tee Times after booking package

- April 1-2, 6-10, 15, 20-22, 27-28
- May 4-5, 7-8, 11-15, 26-28 • June 1-2, 12, 18, 29-30

Marriott Shoals – Florence – \$99

- April 3, 17, 27 • May 9, 11, 18-20, 26-27
- June 8, 19, 29-30

Renaissance Ross Bridge – Hoover – \$109

- April 1-7, 13-22, 27-30
- May 1, 14-15, 18, 26-31

* Memorial Day Weekend, May 23-25, requires a 3 night stay; early departures will result in a rate change to \$259 plus tax per night.*

- June 1-4, 8-12, 15-18, 22-25, 29-30

Opelika Marriott – \$99

- April 1-3, 6-7, 9-14, 17, 20-23, 30
- May 1, 5-7, 10, 14, 17-22, 25-29
- June 1-12, 15-19, 22-26, 29-30

Prattville Marriott – \$89

- April 3-4, 6, 9, 18-22, 27-28, 30
- May 1-10, 15, 18-27
- June 1, 4, 8-16, 20-22, 27-30

Renaissance Montgomery – \$109

- April 6, 10-13, 16-19, 26-29 • May 4-8, 10-11, 18-31
- June 6-7, 13-16, 20, 25-30

RSA Spa Package – \$189 – Promotional code–R2A

- April 10, 16-17, 29 • May 7-8, 22, 28-29
- June 16, 25-26

Specific room requests may require additional charge.
Rates available the 1st of the month and
are not applicable to groups.

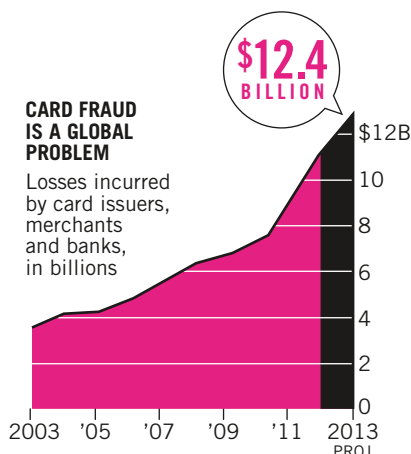
800-228-9290 Ask for RSA rate. **Promotional**

Code: R2A on www.rsa-al.gov/hotels.htm

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CARD FRAUD IS A GLOBAL PROBLEM

Losses incurred
by card issuers,
merchants
and banks,
in billions



IT HITS THE U.S. HARD

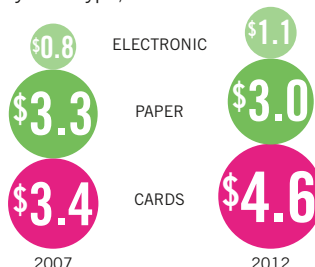
In 2013,
the U.S.
accounted
for an estimated:

25%
OF GLOBAL CARD
TRANSACTIONS

44%
OF GLOBAL CARD
LOSSES

AND IT MAY WORSEN WITHOUT MORE CARD SECURITY

U.S. transaction volume by
payment type, in trillions



Electronic includes preauthorized and remote payments
Paper includes cash, checks and money orders
Cards include debit, credit, EBT and prepaid cards
Source: Nilson Report

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